

## Message Text

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C O N F I D E N T I A L ROME 10198

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E.O. 11652: GDS

TAGS: PFOR, IT

SUBJECT: CHURCH SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS

REF: STATE 164791

1. FOLLOWING ARE ANSWERS TO QUESTIONS IN PARA 2 REFTEL:

A. THE COMPANIES DID NOT "CONSULT" THE EMBASSY ABOUT POLITICAL CONTRIBUTIONS. DURING 1972 AND 1973 EXXON REPRESENTATIVES FROM NY AND LONDON DID "INFORM" THE EMBASSY ABOUT THEIR INVESTIGATION INTO EXPENDITURES AUTHORIZED BY VICENZO CAZZANIGA, PRESIDENT OF ESSO ITALIANA, PRIOR TO 1972. AT THAT TIME EXXON WAS INVESTIGATING AND ATTEMPTING TO DEAL WITH WHAT THEY SAW AS UNAUTHORIZED ACTIONS AND GROSS MISMANAGEMENT BY CAZZINIGA. THESE INVOLVED A DISPUTE WITH ENI OVER UNAUTHORIZED SECRET AGREEMENTS BETWEEN ENI AND ESSO ITALIANA AND UNAUTHORIZED DISBURSEMENTS OF LARGE SUMS BELONGING TO ESSO ITALIANA. SOME OF THE LATTER INVOLVED POLITICAL CONTRIBUTIONS. THE EMBASSY WAS FIRST TOLD IN OCTOBER 1972 OF THE AMOUNTS THAT HAD APPARENTLY BEEN USED FOR POLITICAL PURPOSES. AT THE SAME TIME, EXXON INFORMED THE EMBASSY THAT IT WAS TERMINATING ALL POLITICAL CONTRIBUTIONS OTHER THAN, POSSIBLY, ANNUAL CONTRIBUTIONS TO POLITICAL PARTIES WHICH WERE NOT PROHIBITED BY ITALIAN LAW.

B. THE EXXON REPRESENTATIVES MENTIONED IN PARAGRAPH A ABOVE NEITHER ASKED FOR NOR RECEIVED ADVICE OR ASSISTANCE FROM THE EMBASSY WITH REGARD TO THE MATTERS DESCRIBED IN PARA A ABOVE.

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EXXON DID KEEP THE EMBASSY INFORMED ABOUT THESE PROBLEMS PRESUMABLY

AGAINST THE POSSIBILITY THAT IT MIGHT AT SOME TIME NEED TO REQUEST THE EMBASSY'S FACILITATIVE ASSISTANCE IN DEALING WITH THE ITALIAN GOVERNMENT. SUCH ASSISTANCE WAS NEVER REQUESTED. THE CLOSEST EXXON REPRESENTATIVES CAME TO ASKING FOR EMBASSY ADVICE WAS ON MAY 2, 1973, WHEN THEY DISCUSSED WITH EMBASSY OFFICERS THE POSSIBLE IMPACT IN ITALY OF A PRIVATE SUIT AGAINST CAZZANIGA TO RECOVER SOME OF WHAT EXXON REGARDED AS HIS UNAUTHORIZED EXPENDITURES OF FUNDS BELONGING TO ESSO ITALIANA. A(SEE D BELOW.)

C. THE ITALIAN PUBLIC AND PRESS HAVE FOR MANY YEARS ASSUMED THAT COMPANIES IN ALL SECTORS OF ITALIAN ECONOMY HAVE MADE CONTRIBUTIONS TO POLITICAL PARTIES AND FOR POLITICAL PURPOSES. SUCH CONTRIBUTIONS WERE GENERALLY SEEN AS A NORMAL, EVEN IF REGRETTABLE, PART OF DOING BUSINESS IN ITALY. THEY INCLUDED, FOR EXAMPLE, PUBLIC ACCEPTANCE OF ALLEGATIONS OF REBATES TO THE ITALIAN COMMUNIST PARTY BY MEANS OF AN ADDED CHARGE ON ALL COMMERCIAL CONTRACTS WITH EASTERN EUROPE AND THE SOVIET UNION. WHILE ACCEPTED BY THE PUBLIC AS A GENERALITY, COMPANIES AND POLITICAL GROUPS HAVE AVOIDED PUBLICITY ON SPECIFIC DETAILS ABOUT SUCH CONTRIBUTIONS, E.G., AMOUNTS, FREQUENCY, IDENTITY OF DONORS AND DONEES. THIS SILENCE ON DETAILS HAS BEEN BROKEN ONLY WHEN A SCANDAL (USUALLY A SUGGESTION OF BRIBERY) HAS FORCED SUCH INFORMATIONS INTO THE PUBLIC DOMAIN.

D. "URGENT" WOULD PROBABLY BE A BETTER WORD THAN EXPLOSIVE. IN THE FALL OF 1972 EXXON HAD BEGUN FORMAL ARBITRATION PROCEEDINGS IN SWITZERLAND AGAINST ENI ON THE DISPUTED SECRET AGREEMENTS THAT CAZZANIGA HAD MADE WITH ENI WHILE PRESIDENT OF ESSO ITALIANA (SEE A ABOVE). EXXON HAD TO FILE ITS BRIEF IN THE ARBITRATION PROCEEDING IN APRIL 1973. SINCE LARGE AMOUNTS AND POSSIBLE FUTURE EFFECTS ON ESSO ITALIANA WERE INVOLVED, EXXON HAD IMPORTANT DECISIONS TO MAKE AS TO WHETHER TO PURSUE ARBITRATION OR SEEK A NEGOTIATED SETTLEMENT. AT THE SAME TIME, EXXON HAD CONCLUDED THAT THE TIME HAD COME TO DECIDE ON WHETHER TO SUE THE EX-PRESIDENT OF ESSO ITALIANA VICENZO CAZZANIGA, IN AN EFFORT TO RECOVER ESSO ITALIANA FUNDS WHICH HE HAD DISBURSED WITHOUT AUTHORIZATION. EXXON WAS THUS FACED WITH IMPORTANT AND URGENT DECISIONS ON THE ABOVE TWO FRONTS. ON THE FIRST (PROBLEMS WITH ENI), IT SIMPLY WISHED TO KEEP THE EMBASSY INFORMED; ON THE SECOND (SUING CAZZANIGA) EXXON REPRESENTATIVES DID SEEK AN OPPORTUNITY TO DISCUSS POSSIBLE ITALIAN REACTIONS TO A DECISION TO SUE CAZZANIGA. EMBASSY OFFICERS CONFIDENTIAL

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MADE CLEAR THAT THEY COULD NOT ADVISE EXXON ON WHAT TO DO; THE DECISION TO SUE OR NOT TO SUE HAD TO BE EXXON'S. THEY DID, HOWEVER, DISCUSS POSSIBLE ITALIAN PUBLIC AND PRIVATE REACTIONS TO SUCH A SUIT.

E. THE ANSWER TO THIS QUESTION IS NECESSARILY SPECULATIVE, BUT ON BALANCE WE DOUBT THAT COMPANY CONTRIBUTIONS TO POLITICAL PARTIES AS SUCH PLAYED AN INFLUENTIAL ROLE IN THE 1975 ELECTIONS. THE

GOVERNMENT'S CRITICS CONDEMNED CORRUPTION AND CITED MANY EXAMPLES, BUT CONTRIBUTIONS BY PRIVATE COMPANIES TO POLITICAL PARTIES WERE NOT AMONG THE EXAMPLES. THIS LACK OF SPECIFIC CRITICISM IS PROBABLY EXPLAINED BY THE FACT THAT SUCH CONTRIBUTIONS ARE LEGAL AND THAT MOST ITALIANS DO NOT CONSIDER THEM IMMORAL. HOWEVER, EXAMPLES OF ABUSE OF OFFICE IN STATE COMPANIES AND ALLEGATIONS OF BRIBERY OF OFFICIALS BY PRIVATE COMPANIES WERE CITED DURING THE POLITICAL CAMPAIGN, AND APPARENTLY INFLUENCED SOME VOTERS.

F. THE EMBASSY DID NOT "LET THIS SITUATION GO ON". THE ONLY PRECISE INFORMATION WE HAD WAS ABOUT POLITICAL CONTRIBUTIONS BY ESSO ITALIANA. BY THE TIME WE RECEIVED THAT INFORMATION (FALL 1972), EXXON HAD RETIRED PREMATURELY THE MAN (CAZZANIGA) WHO HAD MADE WHAT EXXON REGARDED AS UNAUTHORIZED CONTRIBUTIONS AND HAD DECIDED TO TERMINATE ALL CONTRIBUTIONS OTHER THAN ANNUAL LEGAL ONES TO POLITICAL PARTIES. THERE WAS NOTHING IN THE INFORMATION AVAILABLE TO THE EMBASSY TO SUGGEST THAT ANYONE INVOLVED HAD ACTED IN VIOLATION OF US LAW. IN TERMS OF ACTION IN ITALY, WE MUST RECOGNIZE THAT WHAT HAD BEEN DONE HAD BEEN DONE BY AN ITALIAN COMPANY (EVEN THOUGH AMERICAN-OWNED) OPERATING IN ITALY AND SUBJECT TO ITALIAN LAW AND REGULATION. POLITICAL CONTRIBUTIONS AS SUCH BY PRIVATE COMPANIES WERE NOT ILLEGAL AND THE PRACTICE OF MAKING THEM WAS REPUTEDLY GENERAL THROUGHOUT INDUSTRY, I.E., IT WAS NOT CONFINED TO EITHER OIL COMPANIES OR TO AMERICAN-OWNED SUBSIDIARIES. AS TO THE SECOND PART OF THE QUESTION, IT IS DIFFICULT TO ACCEPT THE ASSUMPTION THAT SUCH CONTRIBUTIONS WILL DESTROY DEMOCRACY IN ITALY. AS HAS BEEN NOTED IN ANSWERS TO OTHER QUESTIONS, ALL PARTIES BOTH DEMOCRATIC AND UNDEMOCRATIC HAVE BEEN THE RECIPIENTS OF SUCH CONTRIBUTIONS; PRIVATE COMPANIES THROUGHOUT ALL SECTORS OF ITALIAN ECONOMY HAVE BEEN DONORS OF SUCH CONTRIBUTIONS

AND FINALLY, SUCH CONTRIBUTIONS HAVE BEEN GENERALLY ACCEPTED BY THE ITALIAN PUBLIC. MOREOVER, EVEN IF THE EMBASSY HAD PURSUED CONFIDENTIAL

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AND BEEN ABLE TO STOP POLITICAL CONTRIBUTIONS BY AMERICAN OWNED SUBSIDIARIES IN ITALY, SUCH AN EFFORT WOULD NOT HAVE STOPPED THE PRACTICE SINCE THOSE COMPANIES ARE ONLY RESPONSIBLE FOR A PART OF THE TOTAL CONTRIBUTIONS TO THE ITALIAN POLITICAL PARTIES. FINALLY, IN TERMS OF THE PRESERVATION OF DEMOCRACY, IF PRIOR TO THE 1974 LAW ON FINANCING POLITICAL PARTIES, THE CONTRIBUTIONS TO THE DEMOCRATIC PARTIES HAD BEEN CUT OFF, IT WOULD HAVE LEFT THE COMMUNIST AS THE UNQUESTIONABLY BEST FINANCED POLITICAL PARTY IN ITALY.

G. PRIOR TO THE MAY 2, 1974 LAW WHICH INITIATED GOVERNMENT FINANCING OF POLITICAL PARTIES, CONTRIBUTIONS BY COMPANIES WERE GENERALLY REGARDED AS A LEGITIMATE MEANS OF FINANCING POLITICAL PARTIES. THUS, WE DOUBT THAT OIL COMPANY CONTRIBUTIONS WERE MADE ONLY ON THE BASIS OF AN ARGUMENT THAT THEY WOULD HELP PREVENT

ITALY FROM GOING COMMUNIST. (SEE ALSO ANSWER TO ITEM E ABOVE.)

H. ITALY IN 1970 WAS IN A STATE OF TURMOIL. THE "HOT AUTUMN" OF 1969 WAS CHARACTERIZED BY WIDESPREAD SOCIAL UNREST, ENDLESS STRIKES, AND THE FIRST MAJOR OUTBREAK OF POLITICAL VIOLENCE IN MANY YEARS. 1970 SAW TWO GOVERNMENT CRISES WHICH, WITH THE BENEFIT OF HINDSIGHT, WERE THE BEGINNING OF THE END FOR THE CENTER-LEFT CONCEPT DEVELOPED IN THE EARLY 1960'S. THERE WERE NATION-WIDE LOCAL ELECTIONS AND THE FIRST ELECTIONS FOR THE NEWLY-ESTABLISHED REGIONS. THE YEAR WAS ALSO MARKED BY RUMORS OF RIGHT-WING COUPS (THE SO-CALLED BORGHESE ATTEMPT WAS DECEMBER 1970) AS WELL AS POSSIBLE PCI PARTICIPATION IN THE NATIONAL GOVERNMENT AS A WAY TO SECURE SOCIAL AND LABOR PEACE. WITH PARTICULAR REGARD TO THE OIL INDUSTRY, THE GOVERNMENT DID RAISE THE PRICE OF GASOLINE IN 1970 BY 22 LIRE PER LITER, BUT 20 LIRE REPRESENTED INCREASED TAXES. THE SARPOM REFINERY (OWNED 60 PERCENT BY ESSO, 29 PERCENT BY CHEVRON, AND 11 PERCENT BY TEXACO) DID ON NOVEMBER 3, 1970 RECEIVE A LICENSE TO INCREASE PRODUCTION FROM 5.8 TO 14 MILLION TONS PER YEAR. CONCEIVABLY EITHER THE TURBULENT POLITICAL SITUATION (AND THE ELECTIONS) OR THE REFINERY LICENSE COULD HAVE BEEN THE OCCASION FOR UNUSUALLY LARGE CONTRIBUTIONS DURING 1970.

I. SEE SEPTTEL (ROME 10163).VOLPE

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